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STOCK BROKING PVT. LTD.

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BUY

Current Price	153
Target Price	205
Upside/Downside	35%
52 Week Range	199/119

Key Share Data

Market Cap (Rs.bn)	40.8
Market Cap (US\$ bn)	0.62
No of o/s shares (mn)	267.0
Face Value	2
Monthly Avg.vol (BSE+NSE) Nos'000	247
BSE Code	539981
NSE Code	MAXINDIA
Bloomberg	MAX:IN

Price performance



% Shareholding	Dec-16	Sep-16
Promoters	40.91	40.4
FII	22.42	14.8
DII	25.97	36.1
Others	10.7	8.7
Total	100	100

Key Financials (Rs. Mn)

Year	Income	% growth	EBITDA	OPM	PBT	PAT	EPS	CEPS	ROE	ROCE	P/BV	P/CEPS
FY16	12118.7		-75.0	-0.6%	-883.8	-807.5	-3.02	-0.94	-7.0%	-2.6%	3.5	-161.0
FY17E	14547.0	20%	735.6	5.1%	-272.5	50.9	0.19	2.42	0.4%	1.4%	3.5	62.8
FY18E	17329.6	19%	1423.3	8.2%	94.8	347.0	1.30	3.95	2.9%	3.6%	3.4	38.5
FY19E	20831.7	20%	2533.6	12.2%	1015.0	1101.7	4.13	7.13	8.5%	7.4%	3.1	21.3

* MHC network comprises hospitals owned by Max Healthcare Institute as well as trusts

Earnings to grow from healthcare and health insurance

We believe Max India is poised for a turnaround, driven by the improvement in profitability in its healthcare business and the expected breakeven of the health insurance business by FY19. Max India will gain from better service offerings and integration of its acquired hospitals in the NCR region, leading to higher occupancy levels and average revenue per occupied bed (ARPOB) across the MHC network*. The increased proportion of matured beds from 43% in FY16 to 77% by FY19 will enhance the profitability of the healthcare business. In its health insurance business (Max Bupa), we expect Max India to benefit from the increasing penetration of health insurance, leading to a growth in gross written premiums. The progress of both its businesses will drive earnings growth of Max India, benefitting investors in the long run. We initiate coverage on Max India and recommend investors to BUY with a target price of Rs 205.

Investment Argument – Key Points

Increase in ARPOB to continue with better services and occupancy levels

With 2342 operating beds in North India comprising mainly New Delhi across its network comprising Max Healthcare Institute Ltd (MHCIL) and trusts, Max India is a leading player in South Delhi. The integration of its acquired hospitals and the benefits from synergy with the existing matured hospitals in the region will help improve ARPOBs. Further, the widening of services will enable Max India to increase its occupancy levels.

Traction from acquired hospitals mends performance

The enhancement in performance of its acquisitions namely, MHC Pushpanjali and Saket City, in view of better service offerings, has helped increase ARPOB and occupancy levels in 9MFY17. Both the acquisitions come with a land bank of 7 acres at Saket City and 3.5 acres at MHC Vaishali. Max India proposes to develop the land bank at Saket City to expand its capacity beds in the long run.

Acquisition of balance stake over FY18 and FY19

Max India has planned to acquire the balance 22% stake in MHC Vaishali (Rs 1300 mn) and 49% stake in Saket City hospital (Rs 4200 mn) over the next 2 years. We presume the investment will be funded through debt, resulting in a higher interest burden in FY18. Any equity infusion by promoters will provide an upside to our estimates.

Increased health insurance coverage to improve Gross Written Premium

With a market share of 4.3%, we expect Max Bupa to benefit from the increasing penetration of health insurance in India. We expect Gross written premium to grow at 24% CAGR to Rs 9223 mn by FY19.

Financials

Max India consolidates 45.95% of MHCIL for its healthcare business and 100% of Max Bupa for its health insurance business, after providing for minority interest as Bupa, UK holds 49% stake. We expect Max India revenues to grow at 20% CAGR to Rs 20 bn by FY19, driven by healthcare services (19%) and health insurance (23%). We believe EBITDA turnaround in FY17, in view of the increased ARPOB, which will continue further as more hospitals get matured. We expect Max Bupa to turnaround by FY19, resulting in accretion to the bottom line for Max India.

Outlook and Valuation

With the turnaround of both healthcare and health insurance by FY19, we strongly believe investment in Max India will yield significant returns in the long run. We have valued Max India using the sum of the parts method of valuation. At Rs 153, we recommend investors to BUY Max India with a target price of Rs 205, indicating an upside of 35%.



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Company Background

On January 15, 2016 the erstwhile Max India completed its de-merger into three listed entities namely, Max Financial Services Ltd, Max India Ltd and Max Ventures & Industries Ltd. While Max Financial Services is focused on life insurance, Max India Limited is the holding company for Max Healthcare, Max Bupa Health Insurance and Antara Senior Living. The third company Max Ventures & Industries manages investment in the manufacturing subsidiary, Max Speciality Films and is also involved in financing projects in real estate, education and technology.

Max India was listed on July 14, 2016. The new company conducts business in Healthcare (59% of revenues), Health Insurance (40% of revenues) and Senior Living.

Healthcare

In Healthcare, Max India conducts business through 14 hospitals in NCR and Punjab. The company operates its hospitals through its joint venture Max Healthcare Institute Ltd (MHCI). Max India holds 45.95% in Max Healthcare Institute, with an equivalent stake from Life Healthcare, South Africa. The balance 7.5% is held by IFC Washington and balance is with ESOP holders.

Of the 14 hospitals operated by Max India, 3 hospitals are owned by DevkiDevi Trust (Saket), Balaji Trust (Patparganj) and Gujarmal Modi Trust (Saket).

In July 2015, Max India acquired a 78% stake in Pushpanjali Crosslay Hospital, at Ghaziabad for Rs 2470 mn. The acquisition includes a land bank of 3.5 acres.

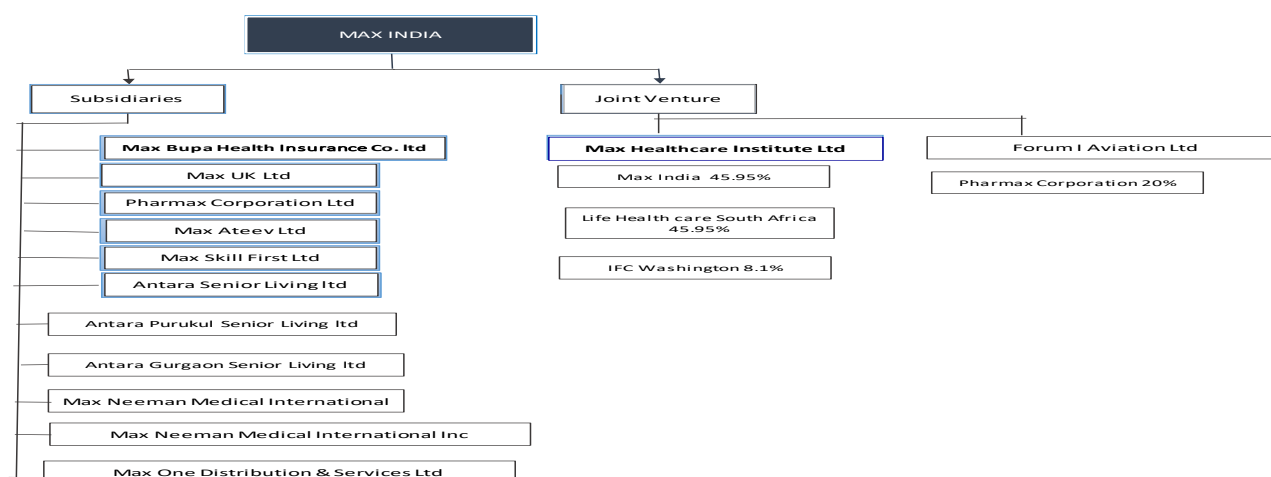
In November 2015, the company acquired 51% stake in Saket City hospital, for Rs 6500 mn. The acquisition includes a land bank of 7.5 acres. Both the joint venture partners collectively infused equity of Rs 3000 mn.

Health Insurance

Max Bupa's health insurance services were launched in 2010 as a joint venture between Max and Bupa, UK. Bupa, UK is the largest independent health insurance provider in UK. In May 2016, Bupa UK increased its stake from 24% to 49% in Max Bupa. Max Bupa is one of India's leading standalone health insurance companies with a salesforce of 405 agency managers, 14000 agents serving 2.2 million lives. Max Bupa has tie-ups with more than 3,500 quality hospitals across 360 cities in India.

Senior Living

Launched in 2013, Antara is pioneering the concept of 'Age in Place' for the elderly by developing Senior Living communities in India. The first Antara community is close to commissioning at Dehradun, Uttarakhand.





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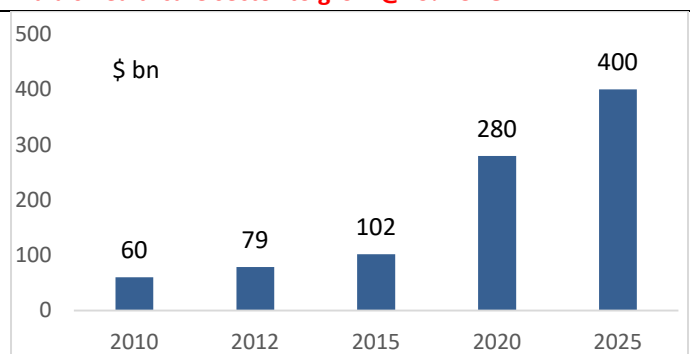
Investment Argument

India's healthcare sector poised for growth

The Indian healthcare sector is poised to grow from \$100 bn in 2015 to \$160 bn in 2017 and \$280 bn by 2020. The sector includes hospitals, pharmaceuticals, diagnostics, medical equipment, medical insurance and telemedicine. The rising levels of income, an ageing population and increasing awareness on health have increased public expenditure on healthcare. Further, a larger coverage of health insurance is expected to augment the growth in the sector.

However, India is far behind other Asian countries in terms of public expenditure on healthcare, medical infrastructure number of hospitals/beds and number of doctors. Being the largest in terms of revenue and employment, the sector has gained importance with favorable policy framework in terms of 100% FDI for Greenfield projects. Earlier this month, the Government increased spends on public health to 2.5% of GDP, through a National Health programme targeting 'Health for All'. The low 15% penetration of health insurance in India compared to other Asian countries and the developed world, have a huge untapped potential for growth in the healthcare sector. With health insurance premiums growing at 15% CAGR from FY09-FY16, the health insurance industry is expected to grow two fold over the next 5 years.

India's healthcare sector to grow @19% CAGR



Industry shift to organized to benefit the private players

In 1983, Apollo Hospitals was the first listed company to enter the healthcare sector followed by Wockhardt and Fortis in the 90's. Up to 2005, Hospitals in India were largely owned and operated by the Government (40% of healthcare spending) and charitable trusts. The top tier hospitals comprised 26% of healthcare spending. This resulted in a high degree of fragmentation with larger hospitals and treatment for complex diseases centered on metros. The nature of the industry also limited scalability and access, giving rise to the need for investments in the sector in order to move towards

organized healthcare. The public private participation (PPP) model gave a boost to investments in the sector from 2014. The industry witnessed consolidation, with a shift towards the organized players. The increasing coverage of health insurance has also aided industry consolidation, benefitting the private players. Currently private players comprise 74% of the industry. Between 2009 and 2015, private hospitals grew at 15% CAGR to \$50 bn. Going forward, the private hospitals are expected to grow at 19% CAGR to \$ 120 bn by 2020.

India emerges as a low cost destination for Medical Tourism

With the industry shift towards the private sector, India has emerged as a low cost destination for medical tourism. The medical tourism industry is expected to grow from \$3.9 bn in 2015 to \$8 bn by 2020. The large players like Apollo Hospitals, Narayana Hrudayalaya (NH), Fortis, and Max India have emerged across India and have helped in improving the quality of services offered. In 2015, the top tier hospitals comprised 40% of the healthcare spending in India, with 30% from nursing homes, 19% from Government hospitals and 11% from mid-tier hospitals. The PPP model has enabled investments in treating advanced diseases and also offering multiple specialty treatments under one roof. With 21 hospitals having accreditation from Joint Commission International (JCI), India is moving towards standardizing its healthcare service offerings. Amongst the



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leading hospitals, Apollo has 8 hospitals with JCI followed while Fortis and NH have 4 and 3 respectively. Max India has also received a JCI accreditation for its hospital at Saket.

Larger players' region centric, competition key sensitivity

In the listed space, Apollo Hospitals is the largest hospital chain by revenues followed by Fortis Healthcare and Max India. The larger players in the industry are region or State centric and circumvent competition in the vicinity. Apollo is spread across India with major presence in Tamil Nadu and Andhra Pradesh. NH is a leading player in Karnataka and East India. Fortis is a major player in North and West India whereas Max India leads in South Delhi, with a presence in Punjab.

Max India to benefit from both Healthcare and Health Insurance

We expect Max India to benefit from the growth in both the healthcare and health insurance industry. With more than 59% Max India revenues from healthcare, the balance 40% is from health insurance. The healthcare revenues come from Max Healthcare Institute (MHCIL) with an indirect benefit from hospitals belonging to DevkiDevi Trust (Saket), Balaji Trust (Patparganj) and Gujarmal Modi Trust (Saket). The hospitals owned by charitable trusts are serviced by MHCIL through medical service agreements. Max India's health insurance revenues come from its joint venture with Bupa, UK.

HEALTHCARE

Leading player in South Delhi

Max India operates a network of 14 hospitals with 2456 capacity beds (MHC network), as on 9MFY17. Of these, 3 hospitals (951 beds) belong to trusts, operated by Max India through a medical service agreement. The key performing hospitals of the MHC networks have been those at Patparganj, Saket, Shalimar Bagh, Mohali and Dehradun.

Indirect benefits from better performance of trust hospitals

Of the MHC network, 951 beds belong to the trusts namely DevkiDevi Trust (Saket), Balaji Trust (Patparganj) and Gujarmal Modi Trust (Saket). Being a part of the same group, Max India has been involved in setting up the hospitals by way of financing the construction costs, medical equipment on lease, staffing services and others required to operate the hospitals. The trust hospitals in turn compensate MHCIL through interest income, lease rentals, service income and a fixed management fee as per market rates. Thus, Max India derives an indirect benefit from the performance of the hospitals belonging to the trusts.

PEER COMPARISON TABLE

Rs in mn.													
Company	Year	Hospitals	Revenue	Beds	Occupancy	ARPOB/day	ALOPS	EBITDA	OPM	PAT	PATM	ROE	ROCE
Apollo Hospitals	FY16	69	54090.7	8730	63%	28036	4.17	7823	14.5%	3310	6.1%	11.21	11.09
Narayana Hrudaya	FY16	23	16177.0	5397	54%	17534.2	4.3	1573.4	9.7%	191.2	1.2%	2.2%	9.7%
Fortis	FY16	30	34490.0	4400	72%	37534.2	3.56	5080	14.7%	-418.4	-1.2%		1.69%
Max (MHC Network)	FY16	14	20980.0	2279	71%	40547.9	3.26	2140	10.2%	100	0.5%	0	0

Company	Year	Hospitals	Revenue	Beds	Occupan	ARPOB/c	ALOPS	EBITDA	OPM	PAT	PATM	ROE	ROCE
Apollo Hospitals	9MFY17	69	54218	6956	64%	31111	4.04	5866	10.8%	1595	2.9%		
Narayana Hrudaya	9MFY17	24	13946	5576	56.70%	20000	4.03	1687.2	12.1%	625.2	4.5%	6.60%	10.60%
Fortis *	9MFY17	30	33918	4400	73%	39452	3.56	2610	7.7%	4343	12.8%		
Max (MHC Network)	9MFY17	14	18500	2342	72.70%	41096	3.24	2030	11.0%	90	0.5%	6.80%	

* India business consolidated

Source: Company, Dalal & Broacha Research



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Well positioned amongst peers

Amongst its peers in the listed space, the MHC network hospitals earn the highest ARPOB of Rs 40,548 per day, as most of the hospitals are in the NCR region. The second largest ARPOB per day comes from Fortis followed by Apollo Hospitals and Narayana Hrudayalaya. For 9MFY17, there is an improvement in ARPOBs across all players with an increase in occupancy levels. We believe the MHC network is well positioned amongst its peers as a leading healthcare service provider in South Delhi. We expect Max India's healthcare business to benefit from the leadership.

Acquisition of Pushpanjali and Saket City widen reach

In July 2015, Max India acquired a 78% stake in MHC Vaishali (erstwhile Pushpanjali Crosslay), a 340-bedded facility at a cost of Rs 2470 mn. The acquisition includes a land parcel of 3.5 acres. The hospital is located at Ghaziabad, 3 kms away from its 402 beds Patparganj hospital, which is one of its matured top performing hospitals in New Delhi.

In November'15, Max India also acquired a 51% stake in Saket City hospital, a 215-bedded facility along with a land bank of 7.5 acres at a cost of Rs 6500 mn. The Saket City hospital is adjacent to 525 beds (324 beds hospital owned by DevkiDevi Trust and 211 beds hospital owned by MHCIL) at Saket. Both the hospitals at Saket are amongst the matured top performing hospitals of the MHC network. Both the acquisitions have been strategic and offer value addition to its healthcare business.

Integration of Saket City and MHC Vaishali to improve ARPOB

Post the acquisition of its hospitals in FY16; Max India improved the performance of its hospitals with higher footfalls and an increase in healthcare offerings providing specialized treatment in oncology, cardiology, neurology and some more. Saket being one of the premium localities in South Delhi generates a higher ARPOB. Saket City's ARPOB increased from Rs 17396 in July'15 to Rs 31717 in Q4FY16. A similar traction was witnessed in MHC Vaishali, with an increase in occupancy rates from 64% to 70%. We expect the traction in healthcare revenues to continue in FY18 and FY19, in view of the integration and synergies of the two acquisitions.

Better performance at Vaishali				Saket – increase in occupancy levels				
Financial Turnaround	Q2FY16	H2FY16	H1FY17	Metric	Unit of Measure	Pre Acquisition	Jul-15	Avg Q4
Revenue (cr)	12.2	15.5	17	Gross Revenue	Rs Lacs	1209	1207.8	1613
EBITDA (cr)	0.6	2.6	2.4	EBITDA Unit	Rs Lacs		12.5	251
EBITDA (%)	5%	17%	14%	EBITDA Margins	% to Net Rev		1%	16%
Occupancy	67%	64%	70%	ARPOB	Rs. Per OBD	15583	17396	31717
				Bed Utilization				
				Available Beds	Nos	260	256	260
				Beds Occupancy	%		56%	64%
				Tertiary:Secondary	Ratio	57:43:00	57:43:00	61:39:00
				ER Conversion	%		45%	50%

Source : Company, Dalal & Broacha Research

Capacity expansion at acquired hospitals

Max India has further planned to expand its capacity at Saket City by 44 beds and at MHC Vaishali by 40 beds in FY17. The company will also add 106 beds to MHC Vaishali in FY19. The company will gradually add beds post FY20, as accruals improve. We expect ARPOB to increase by 10% per annum for MHCIL, in view of the addition of 84 beds, integration of the two acquisitions and benefits from synergy in operations at Saket City and MHC Vaishali. We believe the higher occupancy rates across hospitals will increase MHCIL revenues at 16% CAGR from Rs 14.4 bn in FY16 to Rs 23.8 bn by FY19.

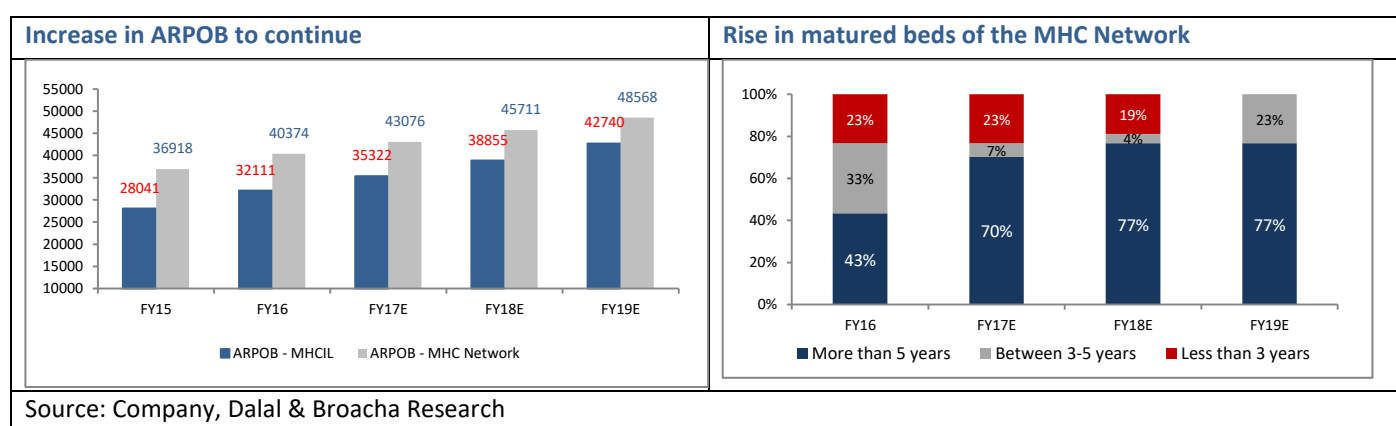


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Faster growth at Max Healthcare

The increase in footfalls on account of the improved medical services in the acquired hospitals has resulted in MHC network ARPOB growing from Rs 36918 per day in FY15 to Rs 40374/day in FY16, indicating a 9% growth. As against this the ARPOB for MHCIL grew 15% from Rs 28041/day in FY15 to Rs 32111/day in FY16. Going forward, with the efforts towards integration of the acquired hospitals and synergies therein, we expect MHCIL ARPOB to increase by 10% every year.



Higher proportion of matured beds to improve profitability

In FY16, 43% of the MHC network operational beds comprised mature beds (more than 5 years old). With the maturity of hospitals at Shalimar Bagh in New Delhi and those at Mohali, Bhatinda and Dehradun in the non-NCR region, the contribution of matured beds will increase to 70% by FY17 and 77% in FY18. Further, the company’s hospital at Saket will move from the less than three years to 3-5 years category. The increased contribution of matured beds will improve profitability. We expect MHCIL EBITDA margins to improve from 8% in FY16 to 12% in FY19.

Purchase of balance stake in acquired hospitals

As per the Saket City deal, Max India will acquire the balance 49% stake at Rs 3750 mn with a 12% coupon over the next 2 years, which leads to an investment of Rs 4200 mn. Max India also plans to acquire the balance 22% stake in MHC Vaishali, involving an investment of Rs 1300 mn in FY20. The aforesaid investments will be financed through a combination of internal accruals and debt. Any equity infusion by the management will provide an upside to our estimates.

We expect Max India’s healthcare business to grow at 19% CAGR to Rs 9886 mn by FY19, driven by the integration of its acquired hospitals. Post the investment in the balance stake, the company’s healthcare business will grow through a near doubling of its capacity beds from 1505 to 2950 on its land parcels.



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HEALTH INSURANCE

Health Insurance industry to double by FY19

The health insurance industry has grown at 21% to Rs 273 bn in FY16. Public sector units (PSUs) offering health insurance like The New India Assurance Company Ltd, comprise 60% of the industry. Private General insurance companies (GIs) like ICICI Lombard, HDFC ERGO constitute 25% and standalone health insurance (SAHI) players 15% of the industry. In FY16, the gross written premium from PSUs grew at 21% and that from GIs grew at 12%. Those from SAHI players grew by 42%.

Higher demand for health insurance due to 15% coverage

India currently has health insurance coverage of 15%, which is on the lower side compared to other developed countries. The Indian consumer has the highest out of pocket spends for medical needs compared to other countries. The increase in per capita income and rise in incidence of life threatening diseases has resulted in an increase in demand for health insurance. We expect Max India to benefit from the increasing demand for health insurance.

Max Bupa uniquely positioned amongst private players

Max Bupa has been one of the early birds in health insurance after Star Health and Apollo Munich. Over the last 5-6 years, the health insurance industry has evolved with solutions for specialized care, maternity care, dengue care and waiving of the two year waiting period for commencement of health insurance benefits. Max Bupa is amongst the leading SAHI players, with a market share of 4.3%, covering 1 mn urban lives in FY16. The company covers a total of 2.3 mn lives including those from the Rashtriya Swasthya Bima Yojana (RSBY). The company focuses on B2C business, which constitutes 98% of the gross written premium. Max India is known for the quality of service offerings with 30-minute claims settlement for more than 90% of the cases.

Well positioned amongst peers (Rs. In mn)

Name of the Company	Year	GWP	Net Premium	Net Earned Premium	Claims	Commsion	Opex	EBITDA	PBT	PAT	Share Capital	Net Worth	Year of Incorporation
Star Health Inc	FY16	20073.42	15397.47	15138.71	54%	3.0%	23%	2485.28	1365.75	1365.75	3869.92	10773.9	2006
Apollo Munich	FY16	11560.42	8639.18	7748.97	65%	4.3%	25%	-172.71	74.59	74.59	3569.22	9567.82	2007
Religare health Inc	FY16	3687.81	3596.73	2877.27	57%	6.7%	70%	-847.52	-788.39	-788.39	4750.7	7790.99	2012
Max Bupa	FY16	4760	4515.52	3931.09	60%	9.4%	46%	-814.68	-684.97	684.97	8980	15873.19	2008
Cigna TTK	FY16	1438.16	1346.53	709.57	79%	8.3%	125%	-1742.14	-1736.1	-1736.21	2400.28	5886.51	2012

Source: Company, Dalal & Broacha Research

Health Insurance business to increase through better dealer network

Being focused on B2C, Max India has a sales network of partnerships with banks and NBFCs, and agents. The company has been investing in the expansion of its sales network. The number of agents increased from 8909 in FY15 to 12581 in FY16 and further to 15821 in 9MFY17. Max India has also recently tied up with Bank of Baroda serving 5400 branches. The company has also launched the first embedded product with Federal Bank. The increase in sales network and higher rate of commission compared to peers, has resulted in higher gross written premiums, with a renewal rate of 85%. Being the third largest amongst the SAHI players, we expect gross written premium to grow at 25% CAGR to Rs 9223 mn by FY19.



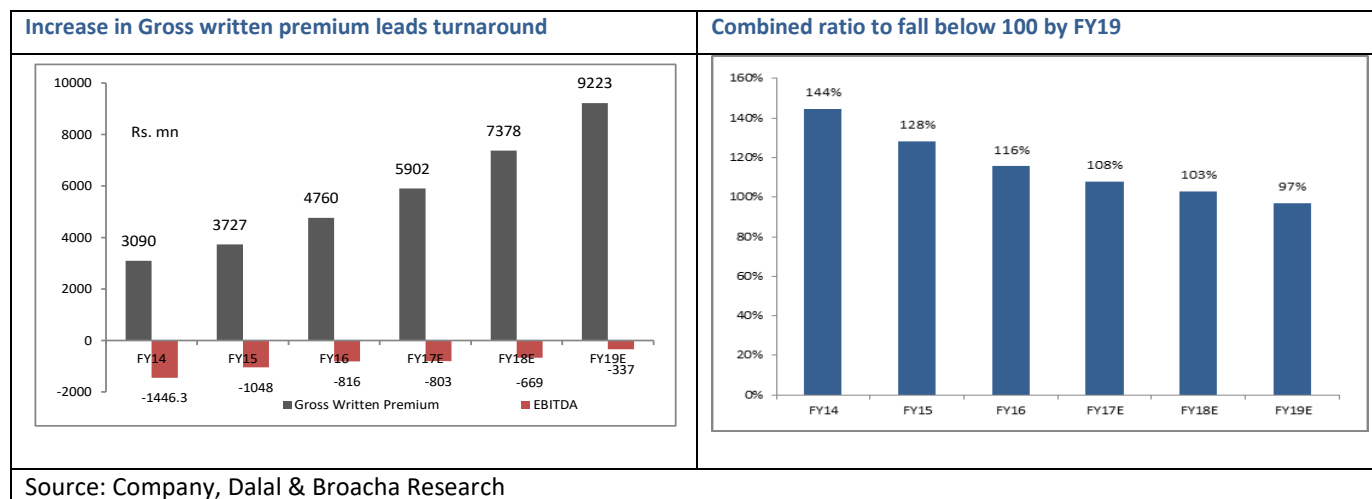
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Change in 1/365 accounting norm improves EBITDA

During FY16, the Insurance Regulatory & Development Authority of India (IRDA) changed the norm for accounting the last day revenue. While earlier the company was accounting for the quarter end revenue in the unearned premium reserve, the same needs to be accounted for as 50% of net premium. In view of this change, Max Bupa earned a benefit of Rs 340 mn during Q2FY17 and Rs 160 mn in H1FY17. We do not consider this benefit in our projections going forward.

Decrease in Combined ratio to generate profits

We expect claims ratio to decrease from 60% in FY16 to 57% in FY17 and by 2% every year thereafter with the traction in gross written premiums. Max Bupa paid a commission of 9.4% in FY16, which increased to 9.7% in 9MFY17. Being an established player in health insurance since FY11, Max India is well placed to rationalize its operating costs. Excluding the benefit due to the change in accounting, Max Bupa has progressed well reducing its combined ratio from 533% in FY11 to 115% in FY16. With the growth in gross written premiums, we expect the combined ratio to fall further to 103% by FY18 and 97% by FY19, resulting in EBITDA breakeven by FY20.



SENIOR LIVING

Max India has built on a project "Antara" offering services for senior living. The project entails a complex with 200 apartments at Dehradun. The company has a total land bank of 13.2 acres at Dehradun. The construction has been completed and possession letters have been sent out to the clients. Max India offers the apartments on a 16 year lease to seniors. The incumbents pay service charges for services rendered. We have not considered revenues from "Antara" as a part of our projections as the project is a novel concept and is in very early stages of commercialization.



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Financial Outlook

Max India is the holding company of both MHCIL (45.95%) and Max Bupa Health Insurance Company (51%). Max India consolidates its financials as 45.95% of MHCIL and being the controlling partner of Max Bupa, 100% of the health insurance business with a provision for minority interest.

Revenues to grow at 19% CAGR

We expect Max India revenues to grow at 19% CAGR to Rs 20831 mn by FY19, driven by 18% growth in healthcare and 23% growth in health insurance business. The healthcare revenues will grow from Rs 7186 mn in FY16 to Rs 11668 mn by FY19. We expect the health insurance business to grow from Rs 4887 mn in FY16 to Rs 9111 mn by FY19.

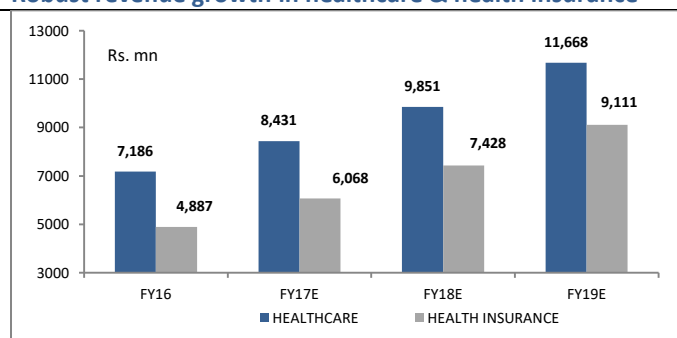
Increased % of matured beds to improve profitability

We expect MHCIL EBITDA (ex OI) to grow at 46% CAGR to Rs 3581 mn by FY19. With the increase in matured beds, we expect MHCIL EBITDA margins to improve from 9.9% in FY16 to 15% in FY19. We expect Max Bupa to achieve EBITDA break even by FY19, in view of the rationalization of operating expenses.

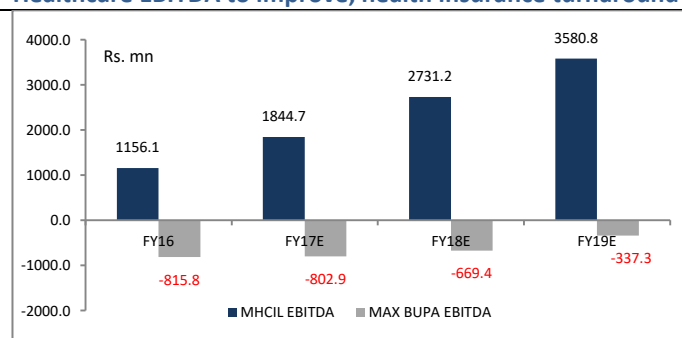
Turnaround in both healthcare and health insurance by FY19

We expect MHCIL net loss to come down from Rs 137.7 mn in FY16 to a profit of Rs 1283 mn by FY19, in view of improved EBITDA margins. We expect Max Bupa to turnaround by FY19 from a loss of Rs 686 mn in FY16 to a profit of Rs 582 mn in FY19, due to the decrease in combined ratio from 116% in FY16 to 97% by FY19.

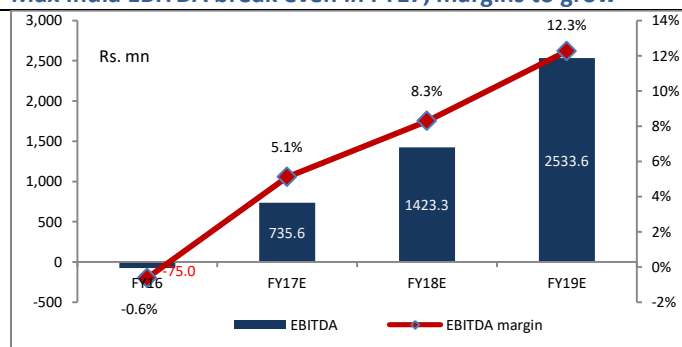
Robust revenue growth in healthcare & health insurance



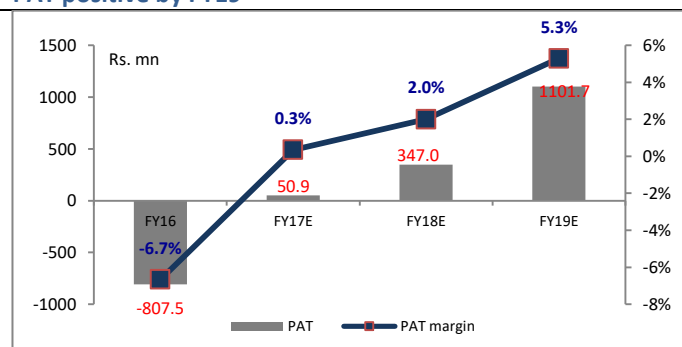
Healthcare EBITDA to improve, health insurance turnaround



Max India EBITDA break even in FY17, margins to grow



PAT positive by FY19



Source : Company, Dalal & Broacha Research



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MAX HEALTHCARE INSTITUTE LTD - KEY FINANCIALS

	FY15	FY16	FY17E	FY18E	FY19E		FY15	FY16	FY17E	FY18E	FY19E
Profit & Loss (Rs mn)						Cash Flow St. (Rs. mn)					
Income from Operations	11336.1	14454.0	17099.9	20051.9	23844.3	PBT ex OI	(643.2)	(440.7)	(141.0)	240.4	907.8
Purchase of medical consumables	3459.5	3986.3	4207.1	4432.5	5313.8	Add: Dep. & Amort.	783.8	866.2	965.1	1,030.1	1,095.1
Employee costs	2320.9	3019.5	3623.4	4275.6	5045.2	Minority Interest	-	(5.0)	-	-	-
Other expenses	4803.5	6292.1	7424.7	8612.6	9904.5	Other Income	272.7	298.2	321.6	347.4	375.1
Cost of sales	10583.9	13297.9	15255.1	17320.7	20263.5	Cash profits	413.3	718.7	1,145.7	1,617.8	2,378.0
Operating Profit	752.2	1156.1	1844.7	2731.2	3580.8	(Inc)/Dec in					
Depreciation	783.8	866.2	965.0745	1030.075	1095.075	-Sundry debtors	(64.5)	(318.7)	(273.8)	(414.1)	(526.9)
PBIT	-31.6	289.9	879.7	1701.1	2485.7	-Inventories	(33.5)	(46.8)	0.2	(12.4)	(48.3)
Other income	272.7	297.8	321.6	347.4	375.1	-Loans/advances	(415.1)	(1,486.5)	(435.2)	(478.7)	(526.5)
Interest	611.6	730.6	1020.7	1460.7	1577.9	Other curr. Assets	9.1	(57.9)	(12.2)	(13.4)	(14.7)
Profit before tax	-370.5	-142.9	180.6	587.7	1283.0	-Sundry creditors	166.2	619.0	(82.5)	(255.3)	362.2
Provision for tax	0	-0.2	0	0	0	-Provisions	(568.9)	59.3	20.7	22.7	25.0
Profit after tax	-370.5	-143.1	180.6	587.7	1283.0	Other curr. Liab	225.7	(11.4)	70.4	77.4	85.1
Minority Interest	0	-5	0	0	0	Change in working capital	(681.0)	(1,243.0)	(712.4)	(1,073.8)	(644.2)
Net Profit	-370.5	-138.1	180.6	587.7	1283.0	CF from Oper. activities	(267.7)	(524.3)	433.2	544.0	1,733.9
						CF from Inv. activities	(1,898.0)	(6,755.2)	(2,809.3)	(5,230.7)	(1,050.8)
						CF from Fin. activities	2,274.6	7,117.8	3,006.7	5,007.3	8.0
Balance Sheet						Cash generated/(utilised)	108.9	(151.9)	630.6	320.6	691.1
Equity capital	4888.1	5334.1	5334.1	5334.1	5334.1	Cash at start of the year	162.5	273.4	121.5	752.1	1,072.8
Reserves & Surplus	3426.8	5844.9	6025.5	6613.2	7896.2	Cash at end of the year	273.4	121.5	752.1	1,072.8	1,763.9
Net worth	8314.9	11179.0	11359.6	11947.3	13230.3						
Preference Shares	0.0	21.3	21.3	21.3	21.3	Ratios					
Long term borrowings	3316.7	6572.6	9572.6	14572.6	14572.6	OPM	6.6%	8.0%	10.8%	13.6%	15.0%
Short term borrowings	461.7	1206.6	1206.6	1206.6	1206.6	NPM	-3.3%	-1.0%	1.1%	2.9%	5.4%
Total debt	3778.4	7779.2	10779.2	15779.2	15779.2	Tax rate	-	-	-	-	-
Minority Interest	0.0	66.5	73.2	80.5	88.5	Growth Ratios (%)					
Other Long term liabilities	19.9	47.3	47.3	47.3	47.3	Income from Operations	20%	28%	18%	17%	19%
CAPITAL EMPLOYED	12113.2	19093.3	22280.5	27875.6	29166.6	Operating Profit	151%	54%	60%	48%	31%
Gross block	10095.5	13173.5	15173.5	16173.5	17173.5	Net Profit	-43%	-63%	-231%	225%	118%
Accumulated depreciation	-2910.6	-4166.1	-5131.17	-6161.25	-7256.32						
Net block	7184.9	9007.4	10042.33	10012.25	9917.177	Per Share (Rs.)					
Capital WIP	184.2	116.6	125.2	155.2	205.2	Net Earnings (EPS)	(0.8)	(0.3)	0.3	1.1	2.4
Total fixed assets	7369.1	9124.0	10167.5	10167.5	10122.4	Cash Earnings (CPS)	0.8	1.4	2.1	3.0	4.5
Goodwill	210.2	5772.9	5772.9	5772.9	5772.9	Dividend	0	0	0	0	0
Investments	1430	0	800	5000	5000	Book Value	17.0	21.0	21.3	22.4	24.8
Other non current assets	5.1	6.5	7.15	7.865	8.6515	Free Cash Flow	(4.4)	(3.0)	(4.5)	(8.8)	1.3
Inventories	185.4	232.2	231.9764	244.3269	292.6176	Face Value	10	10	10	10	10
Sundry debtors	2124.7	2443.4	2717.243	3131.39	3658.306						
Cash & bank	273.4	121.5	752.1129	1072.759	1763.884	Return Ratios (%)					
Loans & advances	2865	4351.5	4786.65	5265.315	5791.847	ROE	-4.5%	-1.2%	1.6%	4.9%	9.7%
Other current assets	63.8	121.7	133.87	147.257	161.9827	ROCE	2.0%	3.1%	5.4%	7.3%	9.8%
Sundry creditors	1551.3	2170.3	2087.787	1832.452	2194.632						
Provisions	147.2	206.5	227.15	249.865	274.8515						
Other curr. Liab	715	703.6	773.96	851.356	936.4916						
Working capital	3098.8	4189.9	5533.0	6927.4	8262.7						
CAPITAL DEPLOYED	12113.2	19093.3	22280.5	27875.6	29166.6						



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MAX BUPA HEALTH INSURANCE - KEY FINANCIALS

	FY14	FY15	FY16	FY17E	FY18E	FY19E		FY14	FY15	FY16	FY17E	FY18E	FY19E
Profit & Loss (Rs mn)							Cash Flow St. (Rs. mn)						
Gross Written Premium	3090	3726.6	4760.1	5902.4	7378.0	9222.5	PBT ex OI	(93.1)	(68.6)	-66.0	-51.5	-17.7	
Net Premium	2963.5	3534.4	4515.5	5607.3	7009.1	8761.4	Other Income	0.2	0.2	0.5	1.0	1.0	
Adj. for unexpired risks	-585.49	-382.0	-584.4	-590.2	-737.8	-922.3	Cash Loss	(92.8)	(68.5)	-65.5	-50.5	-16.7	
Net Earned Premium	2378	3152.4	3931.1	5017.0	6271.3	7839.1	(Inc)/Dec in						
Total Income	2518.7	3334.1	4184.8	5067.0	6321.3	7889.1	Advances & Other Assets	7.0	(7.2)	-8.4	-3.6	0.1	
Net Claims incurred	-1404	-1822.0	-2371.1	-2859.7	-3449.2	-4076.3	-Current Liab	57.8	38.4	40.8	52.7	65.9	
Commission paid	-278.76	-322.0	-448.0	-590.2	-737.8	-922.3	-Provisions	(0.7)	58.6	63.8	82.5	103.1	
Operating Expenses - Ins	-2276.7	-2249.7	-2181.5	-2420.0	-2803.6	-3227.9	Change in working capital	64.0	89.8	96.3	131.6	169.0	
Premium Deficiency	-5.63	12.1	0.0	0.0	0.0	0.0	CF from Oper. activities	(28.8)	21.3	30.8	81.1	152.3	
Total Expenses	-3965	-4381.6	-5000.5	-5869.9	-6990.66	-8226.5	CF from Inv. activities	(93.8)	(127.7)	(201.8)	(251.9)	(314.6)	
EBITDA	-1446.3	-1047.5	-815.8	-802.9	-669.4	-337.3	CF from Fin. activities	120.6	107.6	214.0	184.0	256.1	
Provisions	2.4	-18.5	-36.2	-50.2	-62.7	-78.4	Cash generated/(utilised)	(2.0)	1.3	43.0	13.2	93.9	
Other Expenses	0.0	-24.3	-11.7	-5.0	-5.0	-5.0	Cash at start of the year	14.1	11.9	13.3	56.2	69.4	
Other Operating income	92.0	157.6	175.6	193.1	212.4	233.7	Cash at end of the year	11.9	13.3	56.2	69.4	163.3	
Profit/(Loss) on Investments	25.5	0.0	0.0	0.0	0.0	0.0							
Other Income	0.0	2.2	1.7	5.0	10.0	10.0							
Profit/(Loss) before tax	-1326.5	-930.5	-686.3	-660.0	-514.6	-177.1							
Balance Sheet							Ratios						
Equity capital	6690.0	7905.0	8980.0	11116.8	12956.5	15517.3	OPM	-46.8%	-28.1%	-17.1%	-13.6%	-9.1%	-3.7%
Reserves	-5269.0	-6208.2	-6893.2	-7553.1	-8067.8	-8244.9	PBMTM	-42.9%	-25.0%	-14.4%	-11.2%	-7.0%	-1.9%
Net worth	1421.0	1696.8	2086.8	3563.7	4888.7	7272.5	Growth Ratios (%)						
Fair Value Change Account	0.8	0.9	3.1	0.0	0.0	0.0	Gross Written Premium	49%	21%	28%	24%	25%	25%
Borrowings	0.0	0.0	0.0	0.0	0.0	0.0	Number of shares	669.0	790.5	898.0	1,111.7	1,295.6	1,551.7
CAPITAL EMPLOYED	1421.7	1697.7	2089.9	3563.7	4888.7	7272.5	Face Value	10	10	10	10	10	10
Investments	3369.4	4300.3	5664.5	7553.3	9914.3	12865.5	Per Share (Rs.)						
Loans	0.0	0.0	0.0	0.0	0.0	0.0	Net Earnings (EPS)	(2.0)	(1.2)	(0.8)	(0.6)	(0.4)	(0.1)
Total fixed assets	314.1	321.3	234.0	352.0	499.6	684.0	Book Value	2.1	2.1	2.3	3.2	3.8	4.7
Current Assets	558.5	467.1	552.7	1066.3	1234.8	2172.9	Free Cash Flow	-0.03	(0.4)	(0.3)	(0.3)	(0.3)	(0.2)
Cash & Bank Balance	141.2	119.4	132.6	562.2	694.3	1632.9	Return Ratios (%)						
Advances & Other Assets	417.4	347.8	420.1	504.1	540.5	540.0	ROE	-93%	-55%	-33%	-19%	-11%	-2%
Current Liabilities	739.7	1317.3	1701.5	2109.8	2637.2	3296.6	ROCE	-93%	-55%	-33%	-19%	-11%	-2%
Provisions	2080.6	2073.7	2659.9	3298.2	4122.7	5153.4							
Deferred Tax Liability	0.0	0.0	0.0	0.0	0.0	0.0							
Net Current Assets	-2261.8	-2923.9	-3808.7	-4341.6	-5525.1	-6277.0							
Misc. Exps not written off	0.0	0.0	0.0	0.0	0.0	0.0							
CAPITAL DEPLOYED	1421.7	1697.7	2089.9	3563.7	4888.7	7272.5							



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Valuation

We have valued Max India using the sum of the parts (SOTP) method of valuation. We have valued Max India's healthcare business through MHCIL, using an average of discounted cash flow (DISCOUNTED CASH FLOW – Rs 158) and applying a multiple of 20x EV/Bed. We have taken the proportionate value (45.95%) in DCF. We have valued the health insurance business on 2x gross written premium multiple. We arrive at a value of Rs 135 per share for the healthcare business and Rs 69 per share for the health insurance business. **Using SOTP, we arrive at a target price of Rs 205 per share, indicating an upside of 35%.**

Healthcare business – DCF on MHCIL

DCF Calculation	FY15	FY16	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E
PBIT	241.1	587.7	1201.3	2048.5	2860.9	4523.8	5278.4	7749.2	11082.9	15553.7	21518.7	27207.6	34340.5
PBIT*(1-Tax Rate)	238.8	587.7	1201.3	2048.5	2860.9	4523.8	5278.4	7749.2	11082.9	15553.7	21518.7	27207.6	34340.5
Chg in WC : (Incr)/Decr	-681	-1243	-712.442	-1073.77	-644.163	-771.332	-732.8	-696.1	-661.3	-628.3	-596.8	-567.0	-538.6
Capex		-2536.3	-2008.6	-1030	-1050	-2000	-2000	-2000	-2000	-2000	-2000	-2000	-2000
-FCFF		-3191.6	-1519.7	-55.3	1166.7	1752.5	2545.7	5053.1	8421.6	12925.5	18921.8	24640.6	31801.8
-FCFF Growth Rate													
-Cost of Capital (%)				12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%
-Weight Assigned				1	2	3	4	5	6	7	8	9	10
-Present Value				-49.3	926.9	1241.0	1606.8	2842.8	4223.0	5777.2	7538.2	8749.7	10065.4
Sum of PV of FCF													42921.7
Calculation of Terminal Value													
Terminal Year Free Cash Flow													33391.9
Terminal Growth Rate													5.0%
Terminal Enterprise Value													464292.4
Terminal Value													146951.1
Enterprise Value													189872.8
Add: Cash & Investments													121.5
Less: Debt													7779.2
Market Capitalisation													182215.1
% stake by Promoters													46%
No. of shares													533.4
Value per share													158.1
CMP													153.0
% upside													3.3

WACC for terminal growth

Expected Market Return (Rm)	15.0%
Risk Free Rate (Rf)	7.0%
Country Premium (Rm-Rf)	8.0%
Beta	0.8
Cost of Equity	13.6%
Cost of Debt	9.0%
Tax rate	0.0%
Post Tax Cost of Debt	9.0%
Long term debt to capital ratio	30%
WACC	12.19%

Peer Comparison

	28/03/2017		EPS				P/E Multiple			EV per Bed
	CMP	MCAP	FY16	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	
Apollo Hospitals	1156.8	160934		29.473	38.987	51.068	39.25	29.67	22.65	26.65
Fortis Healthcare	179.45	86416		3.021	4.432	5.735	59.40	40.49	31.29	18.91
Max India *	152	18647	-0.26	0.34	1.10	2.41				16.95
Narayana Hrudayalaya	307.15	62769	0.94	4.89	9.75	15.19	62.79	31.49	20.22	12.01

* Mcap @ 45.95% to compare with other healthcare companies

Health Insurance

We have valued Max Bupa by applying a gross written premium multiple of 2x FY19E, we arrive at a target price of Rs 69 for the health insurance business.



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MAX INDIA LTD - KEY FINANCIALS

	FY16	FY17E	FY18E	FY19E		FY16	FY17E	FY18E	FY19E
Profit & Loss (Rs mn)					Cash Flow St. (Rs. mn)				
Revenue from Healthcare Services	7186.1	8430.6	9851.4	11667.5	PBT ex OI		-431.9	-67.8	849.1
Revenue from Health Insurance	4886.9	6068.4	7427.8	9111.3	Add: Dep. & Amort.		595.8	707.8	802.3
Other operating Income	45.7	48.0	50.4	52.9	Minority Interest		323.4	252.2	86.8
Income from Operations	12118.7	14547.0	17329.6	20831.7	Other Income		159.4	162.6	165.9
Purchase of medical consumables	-1844.8	-2002.5	-2282.5	-2637.9	Cash profits		646.6	1054.8	1904.0
Employee costs	-3193.3	-3768.1	-4333.3	-4983.3	(Inc)/Dec in				
Professional fees to Doctors	-1516.5	-1522.5	-1806.4	-2130.9	-Sundry debtors		-223.3	-263.8	-340.9
Claims & agents commission	-2774.7	-3450.0	-4187.0	-4998.6	-Inventories		-5.5	-20.5	-26.6
Other expenses	-2864.5	-3068.2	-3297.1	-3547.4	-Loans/advances		-618.7	-742.4	-890.9
Cost of sales	-12193.7	-13811.3	-15906.3	-18298.1	Other curr. Assets		-46.2	-50.8	-55.9
Operating Profit	-75.0	735.6	1423.3	2533.6	-Sundry creditors		140.3	419.3	527.7
Depreciation	-555.4	-595.8	-707.8	-802.3	-Provisions		576.7	692.1	830.5
PBIT	-630.4	139.8	715.5	1731.3	Other curr. Liab		238.8	286.6	343.9
Other income	156.3	159.4	162.6	165.9	Change in working capital		62.2	320.5	387.8
Interest	-409.6	-571.7	-783.2	-882.2	CF from Oper. activities		708.9	1375.3	2291.8
					CF from Inv. activities		-3500	-3227	-1500
Profit before tax	-883.8	-272.5	94.8	1015.0	CF from Fin. activities		2934.4	2574.3	221.1
Provision for tax	-102.0	0.0	0.0	0.0	Cash generated/(utilised)			143.2	722.5
PAT Bfr Excp Items	-985.7	-272.5	94.8	1015.0	Cash at start of the year			369.8	513.0
Minority Interest	178.3	323.4	252.2	86.8	Cash at end of the year	369.8	513.0	1235.6	2248.5
Net Profit	-807.5	50.9	347.0	1101.7					
					Ratios				
Balance Sheet					OPM	-0.6%	5.1%	8.2%	12.2%
Equity capital	0.5	534.0	534.0	534.0	NPM	-6.7%	0.3%	2.0%	5.3%
Share Appln money pending allotme	533	0	0	0	Tax rate	11.5%	0.0%	0.0%	0.0%
Reserves	10990	11041	11388	12489					
Net worth	11523.6	11574.5	11921.5	13023.2	Growth Ratios (%)				
Prof. shares	9.9	9.9	9.9	9.9	Healthcare services		17%	17%	18%
Def. Tax Liab	20.8	20.8	20.8	20.8	Health Insurance		24%	22%	23%
Minority Interest	597.9	921.3	1173.5	1260.2	Income from Operations		20%	19%	20%
Secured loans	4544.4	7044.4	9244.4	9244.4	Operating Profit			93%	78%
Unsecured loans	558.4	558.4	558.4	558.4					
Total debt	5102.8	7602.8	9802.8	9802.8	Per Share (Rs.)				
Other Liab	1109.9	1220.9	1343.0	1477.3	Net Earnings (EPS)	-3.02	0.19	1.30	4.13
CAPITAL EMPLOYED	18365.0	21350.2	24271.5	25594.2	Cash Earnings (CPS)	-0.94	2.42	3.95	7.13
Gross block	8149.9	10149.9	11349.9	12849.9	Dividend	0	0	0	0
Accumulated depreciation	-2839.3	-3435.1	-4142.9	-4945.2	Book Value	43.16	43.35	44.65	48.78
Net block	5310.6	6714.8	7207.0	7904.7	Free Cash Flow		-16.1	-13.2	-3.4
Capital WIP	2482.7	2482.7	2482.7	2482.7	Face Value	2	2	2	2
Total fixed assets	7793.3	9197.5	9689.7	10387.4	Valuation Ratios				
Goodwill	4054.1	4054.1	4054.1	4054.1	P/E(x)	-50.3	798.0	116.9	36.8
Investments	7375.8	8875.8	10902.8	10902.8	P/CEPS(x)	-161.0	62.8	38.5	21.3
Other non current assets	4.9	4.9	4.9	4.9	P/B(x)	3.5	3.5	3.4	3.1
Inventories	108.7	114.2	134.7	161.3	EV/EBIDTA(x)	-554	57	29	16
Sundry debtors	894.6	1057.0	1244.5	1489.5	EV/SALES(x)	3.4	2.9	2.4	2.0
Cash & bank	369.8	513.0	1235.6	2248.5	Return Ratios (%)				
Loans & advances	3093.3	3712.0	4454.4	5345.3	ROE	-7.0%	0.4%	2.9%	8.5%
Sundry creditors	-2051.8	-2192.0	-2611.3	-3139.0	ROCE	-2.6%	1.4%	3.6%	7.4%
Provisions	-2883.7	-3460.4	-4152.5	-4983.0					
Other curr. Liab	-1194.2	-1433.1	-1719.7	-2063.6					
Working capital	-863.2	-782.2	-380.1	244.9					
CAPITAL DEPLOYED	18365.0	21350.2	24271.5	25594.2					



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